



## **DEPARTMENT OF THE TREASURY OFFICE OF PUBLIC AFFAIRS**

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**Testimony of  
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Before the  
Subcommittee on Aviation  
United States House of Representatives**

Thank you, Chairman Mica and members of the subcommittee, for this opportunity to report to you on the Air Transportation Stabilization Board (ATSB or Board).

### **Program Overview**

As you know, the ATSB was established by Congress in September 2001 as part of the Air Transportation Safety and System Stabilization Act (Act). The Board is comprised of designees of the Chairman of the Federal Reserve (who is Chairman of the Board), the Secretary of the Treasury, the Secretary of Transportation, and the Comptroller General of the United States (who is a nonvoting member). The designees and voting members are Federal Reserve Board Governor Edward M. Gramlich, Department of the Treasury Under Secretary for Domestic Finance Brian C. Roseboro, and Department of Transportation Under Secretary for Policy Jeffrey N. Shane. The ATSB was authorized to issue up to \$10 billion of Federal loan guarantees to air carriers that suffered losses as a result of the September 11 terrorist attacks. The Act required the Office of Management and Budget to issue regulations setting forth procedures and minimum requirements for loan guarantee applications.

The ATSB received sixteen loan guarantee applications prior to the June 28, 2002 application deadline established under the Board's regulations drafted by OMB. They included a range of large airlines, low-fare airlines, smaller airlines, charter and cargo carriers. The ATSB has approved seven applications, denied eight applications, and has

one application pending. One of the approved applications was withdrawn prior to closing.

The ATSB has issued six loan guarantees totaling \$1.56 billion supporting loans totaling \$1.74 billion. The carriers who have received ATSB guarantees are America West Airlines (\$380 million for a \$429 million loan), American Trans Air (\$148.5 million for a \$168 million loan), Aloha Airlines (\$41 million for a \$45 million loan), Frontier Airlines (\$63 million for a \$70 million loan), US Airways (\$900 million for a \$1.0 billion loan), and World Airways (\$27 million for a \$30 million loan). Evergreen Airlines received conditional approval for a loan guarantee but withdrew its application after obtaining a private loan. The loans range in maturity from five to seven years with final maturity dates between 2007 and 2009. The guarantees generally have represented about 90 percent of the total loan amounts, with roughly 10 percent of the risk assumed by private sources.

### **Evaluative Criteria**

In evaluating loan guarantee applications, the Board has applied the standards set forth in its statute and regulations. To be eligible for a loan guarantee, an air carrier must demonstrate that it suffered losses as a result of September 11, credit is not reasonably available to the air carrier, the intended obligation by the air carrier is prudently incurred, and the loan is a necessary part of maintaining a safe, efficient, and viable commercial aviation system in the United States.

Among other things, the OMB regulations require the ATSB to consider whether the application presents a reasonable assurance that the borrower will be able to repay the loan by the date specified in the loan agreement. The ATSB conducts detailed analyses of each air carrier's business plan and financial projections as part of its evaluation process. The ATSB also evaluates credit ratios, liquidity, downside forecast scenarios, and the value of proposed collateral to make an overall judgment on the risk being assumed by the taxpayer.

### **Compensation to the Government**

The statute also indicates that, to the extent feasible and practicable, the government should be compensated for the risk of extending loan guarantees. The ATSB has strived to ensure that the government has been compensated for the risk assumed in making the guarantees through fees and stock warrants. To date, the six ATSB borrowers have paid approximately \$145 million in guarantee fees to the Government. The ATSB also obtained stock warrants in the six air carriers to allow the government to participate in their financial success. For those air carriers, the warrants represent between 10 percent and 33 percent of each company's equity. Based on recent stock prices, the ATSB warrants currently have a "paper value" in excess of \$100 million. While they can be exercised and sold at the Board's discretion -- the Board is exploring different options for monetizing the warrants -- the actual value realized will be a function of a number of factors such as the size of the position offered, liquidity of the underlying stock and

markets, investor interest, and the timing and manner in which the warrants are monetized. The warrants will have expired by 2012.

### **Loan Performance**

Currently, all five of the outstanding ATSB guaranteed loans are performing. The current amount of outstanding guarantees is \$1.19 billion. Frontier Airlines repaid its loan in full ahead of schedule in December of last year. However, there is always a risk of eventual defaults given the challenges the industry continues to face. The ATSB closely monitors the financial performance of all of its borrowers. The borrowers submit monthly financial reports to the ATSB, and the ATSB meets regularly with the borrowers to discuss the state of the business.

On occasion, the Board has granted amendments and waivers to loan terms for several of its borrowers. In these cases, the ATSB strives to ensure that taxpayer interests are protected or enhanced. For example, the ATSB negotiated a prepayment of \$250 million from US Airways as part of an agreement to provide the company with flexibility to meet changing conditions in the airline industry.

### **Conclusion**

During a very challenging period for the airline industry, the ATSB has worked hard to responsibly execute its statutory mandate to provide liquidity to air carriers whose business plans can support repayment of the loans.